

Message Text

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61

ACTION EUR-25

INFO OCT-01 ISO-00 SPC-03 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 L-03 H-03 PA-04 PRS-01 USIA-15 DRC-01 /169 W

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R 211735Z DEC 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 6648

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

USMISSION EC BRUSSELS

USMISSION OECD PARIS

UNCLAS LONDON 15056

DEPARTMENT FOR TREASURY AND EXIM

E.O. 11652:N/A

TAGS: EFIN

SUBJECT: ECGD ANNOUNCES A NEW FLEXIBLE SCHEME OF INTEREST
RATES FOR EXPORT FINANCING

BEGIN SUMMARY: THE EXPORT CREDITS GUARANTEE DEPARTMENT
(ECGD) IS INTRODUCING ON JANUARY 1, 1974, A NEW AND MORE
FLEXIBLE INTEREST RATE STRUCTURE WHICH WILL REPLACE THE
PRESENT SINGLE RATE STRUCTURE FOR EXPORT CREDITS OF MORE
THAN TWO YEARS. THE BASIC RATE ON TWO TO FIVE YEAR
CREDITS WILL BE RAISED FROM 6 PERCENT TO 7 PERCENT.

END SUMMARY

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1. SIR GEOFFREY HOWE, MINISTER FOR TRADE AND CONSUMER AFFAIRS, ANNOUNCED ON DECEMBER 19, THAT FROM THE BEGINNING OF 1974 A SCHEME OF FLEXIBLE INTEREST RATES FOR EXPORT FINANCE WILL REPLACE THE SINGLE RATE STRUCTURE FOR CREDIT LONGER THAN TWO YEARS.

2. THE FIXED EXPORT INTEREST RATE FOR BUSINESS ON CREDIT BETWEEN TWO AND FIVE YEARS IS TO GO FROM 6 PERCENT TO 7 PERCENT. IT HAS BEEN AT 6 PERCENT FOR ABOUT TWO YEARS, BUT IT HAS BECOME CLEAR THAT THE RATE WAS WELL OUT OF LINE WITH THE WORLD INTEREST RATES AND THAT THE MARKET COULD BEAR A HIGHER RATE.

3. FOR CREDIT TERMS OVER FIVE YEARS, ECGD IS INTRODUCING A MAJOR INNOVATION. IT WILL OFFER A SPECIFIC RATE VARYING BETWEEN 6 PERCENT AND 8-1/2 PERCENT FOR EXPORT FINANCE, WITH EACH CONTRACT BEING NEGOTIATED INDIVIDUALLY. THIS POLICY WOULD ALLOW THE DEPARTMENT TO OFFER 6 PERCENT WHERE NECESSARY TO DO SO TO WIN A CONTRACT, WHILE IT WOULD ENABLE THE DEPARTMENT GENERALLY TO CHARGE WHAT THE MARKET WOULD BEAR. THE SOVIET UNION WILL CONTINUE TO GET 6 PERCENT BUT THE RATE FOR NEW SHIPBUILDING REMAINS AT 7 PERCENT, IN LINE WITH INTERNATIONAL AGREEMENT.

4. ANOTHER INNOVATION IS AN IMPROVEMENT IN THE COVER OFFERED TO BRITISH MERCHANTS INVOLVED IN TRADE BETWEEN THIRD MARKETS. COVER WILL BE EXTENDED TO INCLUDE BUYER DEFAULT. THE PREMIUM FOR THIS COVER WILL GO UP BY AN AVERAGE 12 PENCE PER 100 POUNDS ON THE POLICYHOLDER'S EXTERNAL TRADE BUSINESS. THIS BUSINESS IS ESTIMATED TO BE WORTH 330 MILLION POUNDS A YEAR.

5. FINALLY, ECGD IS CIRCULATING COPIES OF ITS NEW COMPREHENSIVE GUARANTEE, WHICH COVERS BANK ADVANCES FOR SHORT-TERM BUSINESS. THIS ACCOUNTS FOR SOME 82 PERCENT OF ECGD BUSINESS, AND IT HAS SOME 12,000 POLICYHOLDERS.

6. DETAILS FOLLOW BY AIRGRAM.

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Disposition Remarks:
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30 JUN 2005

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